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INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE

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UNCLAS HARARE 000847

SIPDIS

STATE PASS TO USAID FOR J.HARMON AND L.DOBINS

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TAGS: ECON ZI

SUBJECT: ZIMBABWE MANUFACTURING EXPANDS, BUT FIRMS REMAIN PESSIMISTIC

¶1. Summary: A new survey of manufacturers delivers more evidence of economic recovery in Zimbabwe. Capacity utilization among manufacturers rose from less than 10 percent in the first half of 2007 to just over 32 percent in the first half of 2009. But despite the improvement, less than 10 percent of the 150 firms surveyed were optimistic about future prospects for manufacturing. End summary.

¶2. New survey results show signs of recovery in Zimbabwe's manufacturing sector. A study just released by the Confederation of Zimbabwe Industries (CZI) shows that capacity utilization among manufacturing firms increased significantly in the first half of 2009 compared to the same period in 2007. The CZI survey shows that capacity utilization rose from below 10 percent of installed capacity in 2007 to an average of 32.3 percent in 2009. As a result of the improvement in capacity utilization, the survey found that 89.2 percent of 150 sampled firms recorded growth in manufacturing output compared to first half of 2007.

¶3. In spite of the improvement in capacity utilization, many firms surveyed pointed to a number of constraints bedeviling the manufacturing sector. Of the sampled firms, 32.5 percent said they were constrained by the low availability and high cost of working capital. Only 17 percent of the sampled firms undertook meaningful investments during the first half of 2009. Just over 25 percent of the sampled firms pointed to low domestic demand arising from very low salaries as the most important constraint to operating at full capacity, while 13 percent of the firms identified the shortage of inputs as a major constraint to improving capacity utilization. Power shortages and antiquated equipment were also identified as having been responsible for low capacity utilization levels by 6.5 and 5.9 percent of the sampled firms respectively.

¶4. The survey also shows that decline in manufactured exports continued but the rate of decline slowed from 35 percent during the first six months of 2007 to just 5 percent during the period under review. Most firms stated that their products could not compete in foreign markets because of high production costs associated with high labor costs, very high utility charges, and lack of long term credit.

¶5. Overall, only 9.5 percent of the firms surveyed were optimistic about future prospects within the sector while the majority (67.4 percent) was indifferent and 23.4 percent were pessimistic.

¶6. Comment: Like Zimbabwe's economy as a whole, manufacturing is improving because there was no place to go but up. And there is anecdotal evidence that recovery continued beyond the first six months of this year. Sustaining that recovery will be difficult, however, as long as political risk discourages external capital flows to Zimbabwe's private sector.

